Lifespan

Delivering health with care.

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Vice President

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Representative Marvin L. Abney
Chairman
House Committee on Finance
State House, Room 35
Providence, RI 02906

Dear Chairman Abney:

On January 16, 2020, the Governor proposed the budget for state fiscal year 2021 (H-7171). This proposal includes many of the same cuts to hospitals that have been introduced in the last several years. During each previous budget cycle, thanks to the efforts of the General Assembly and particularly the work of the House and Senate Finance Committees and Leadership, many of the cuts had been eliminated and much of the funding restored – significantly mitigating the lost revenue to our hospitals.

The SFY'21 proposed budget has provisions including: an increase in the Hospital Licensing fee from the anticipated reduction – included in the most recently passed budget – from 5% of net patient service revenue to 6%; freeze in Medicaid rates; elimination of the outpatient Upper Payment Limit; a Payment in Lieu of Taxes (PILOT) provision establishing enabling legislation to allow municipalities to tax hospitals for "non-mission" related property (undefined in the legislation); co-payments for Medicaid inpatient hospital stays, among other proposals. If these provisions were to be adopted, the total cost to Lifespan hospitals alone would be approximately $25-30 million. The Administration did include some positive provisions, including maintaining the Graduate Medical Education funding for Rhode Island Hospital and a provision to shift Medicaid recipients into RIte Share. Unfortunately, these positive proposals only lessen the total negative impact of the cuts identified above.

Lifespan concluded its most recent fiscal year on September 30, 2019. We experienced one of the worst operating margins in the history of the organization. Lifespan lost $23 million on operations. The sobering reality that is of greatest concern, is we suffered that negative fiscal impact while our hospitals were at full capacity and in some cases beyond full capacity. Lifespan was not experiencing a volume issue; we were experiencing a payor mix/reimbursement issue. Close to 70% of our book of business is paid by public payors (Medicare and Medicaid), which on average, pay us less than what it costs to provide the care to the patients/recipients of these programs. I have attached as an addendum, a comparison of regional and national peer organizations which shows their payer mix compared to ours. The addendum clearly identifies how Rhode Island hospitals are disadvantaged as compared to our peer organizations as a result of this market reality. Given the number of patients we see that are covered by commercial insurance -- which reimburses us closer to our costs of care versus public payors whose covered lives are reimbursed below costs -- it becomes clear why our hospitals struggle to break even or realize a margin. It is important to note, we have been benchmarked nationally against our peer institutions and have been recognized among the most efficient hospitals.

As we concluded our first quarter of this fiscal year, beginning on October 1, 2019, with a focused effort on correcting our fiscal concerns which included a reduction in force (RIF) and a voluntary early retirement program (VERP), Lifespan began to realize a turnaround. We experienced a loss of $2.6 million as compared with the $18 million loss during the same time period from the previous year. Unfortunately, as we began the start of the second quarter, we faced the beginnings of the COVID-19 crisis. During the month of March, Lifespan lost $33 million on operations primarily due to the canceling of elective surgeries, closing of ambulatory sites and a significant reduction in office and emergency room visits. In addition, we experienced significant increases in expenses associated with our preparedness efforts, including maintaining staff for a possible surge, expenses for procuring personal protective equipment (PPE), and additional testing and lab expenses. After factoring in $8.9 million for restructuring expenses (from the RIF and VERP) and investment losses of $41.1 million, the one month overall net loss for March was $75.7 million. Since Lifespan was continuing to see patients for "elective procedures" during the first third of March, we anticipated April would realize greater losses, and did in fact, report a loss of $43 million on operations during the month of April.

An unfortunate additional consequence from the COVID-19 crisis – with the loss of economic activity due to the closing of businesses and the resulting loss of jobs or slowdowns in employment, hospitals anticipate a greater shift from employer sponsored (commercial) health benefits to public payors, thereby putting a greater fiscal strain on our hospitals as identified above. A recent Kaiser Family Foundation survey found that states are facing higher Medicaid enrollment than expected in 2020, and that impact could continue to grow even higher into the following year.

We do acknowledge that the state has sustained unprecedented losses of revenue as a result of the COVID-19 crises, and your ability to mitigate our fiscal challenges and amend proposed cuts to hospitals will create challenges for you as you proceed with crafting the state FY'21 budget. At this time, there are additional federal proposals that may be enacted that will assist states and municipalities to address their budgetary issues. If those federal relief packages were to pass, we respectfully request that consideration be given to hospitals, a critical sector in the state's economy and an essential partner for the care of our residents as we continue to address the challenges related to this pandemic.

Thank you.

Sincerely,

David A. Balasco
Vice President, Government Relations